

RatingsDirect®

Summary:

Arizon Industrial Development Authority; Charter Schools; School State Program; State Revolving Funds/Pools

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Summary:

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Credit Profile

Arizona Industrial Development Authority, Arizona

Arizona Agribusiness & Equine Ctr Inc, Arizona

Arizona Industrial Development Authority (Arizona Agribusiness & Equine Ctr Inc)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	BB+/Negative	Affirmed

Arizona Industrial Development Authority, Arizona

Candeo Schs, Inc., Arizona

Arizona Ind Dev Auth (Candeo Schs, Inc.)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	BBB-/Stable	Affirmed

Rating Action

S&P Global Ratings has affirmed its 'AA-' issuer credit rating (ICR) on the Arizona Public School Credit Enhancement Program and its long-term ratings on bonds guaranteed by the program. The outlook is stable. Underlying ratings reflecting our view of the credit quality of the individual guaranteed bond borrowers remain unaffected.

Currently, the enhancement program guarantees about \$277 million of outstanding bonds through 13 guaranteed financings affecting 35 campuses that hold 25 separate charters. There are currently nine separate charter school organizations that are obligated for repayment on the guaranteed bonds. The dedicated Arizona Public Schools Enhancement Fund which supports the guarantee is currently valued at about \$106 million.

The bond issues affected are certain guaranteed series of bonds issued by the following charter school organizations (all in Arizona):

- Academies of Math and Science (underlying rating of 'BB/Stable'),
- Arizona Agribusiness Equine Center Inc. (BB+/Negative),
- BASIS Schools Inc. (BB/Stable),
- Candeo Schools Inc. (BBB-/Stable),
- Highland Prep (not rated),
- Great Hearts Academies (BBB-/Stable),
- Legacy Traditional School (BB+),

- Paradise Education Center (BB+/Stable), and
- Vista College Preparatory (not rated).

The stable outlook reflects our opinion that the \$106 million enhancement fund provides a level of credit support for the existing portfolio of guaranteed financings that is consistent with the current rating, including the effect from additional guaranteed financings which will bring the guaranteed principal amount to about \$350 million. It is our understanding that the additional financings will be finalized during 2021.

Credit overview

The 'AA-' rating is based on our assessment of the following:

- The very strong enterprise risk profile reflects the nature of the credit enhancement program being established by state statutes. In addition, the criteria for program eligibility are part of the program's authorizing statutes.
- The strong financial risk profile is supported by a level of over-collateralization provided by the enhancement fund that we consider consistent with the current rating. If the enhancement fund is used to pay any scheduled principal or interest payments, the state treasurer is precluded from transferring distributions out of the enhancement fund until the program leverage is projected to remain no higher than 3.5 to 1.
- The state treasurer also has the right to intercept any state aid due to a qualified school to make payments on any guaranteed bonds, which also helps support the current rating level.

We believe that even if distributions are taken, that the enhancement fund balance should be sufficient to provide over-collateralization consistent with the current rating. However, we have noted some downside risks to the rating below.

Following mobility restrictions and closure of large segments of the economy due to COVID-19 and the swift onset of recession, most of S&P Global Ratings' sector outlooks in U.S. public finance remain negative. For long-term municipal pools, the majority of the underlying cash flows that are either pledged for repayment of bonds or guaranteed by the programs originate from U.S. public finance asset classes. While the Arizona Public School Credit Enhancement Program benefits from additional over-collateralization and diversity, we believe that ratings on these programs could be pressured if the 0% delinquency for current guaranteed financings starts to increase. However, the large enhancement fund balance as a cushion to any downside pressure at this time.

Stable Outlook

Downside scenario

The rating could be lowered if our underlying ratings on the charter school organizations are lowered, if the guarantee fund is called on to make payments on guaranteed bonds, or if there are issues with delayed bond payments from program participants. This would have a worsening effect in our criteria scoring, which includes a consideration for the number of charter school organizations that have been late or are nonperforming on their bond repayments. Incorporated into our review of the charter school organizations would be any developments in state funding or any potential effects of recessionary pressures.

Upward scenario

We do not expect that the rating would move any higher than the existing 'AA-' rating unless the state decided to change the statutory maximum leverage ratio to something significantly less than the current 3.5:1.

Credit Opinion

The enhancement program was created in 2016 to provide eligible schools with access to a lower cost of borrowing. The guarantee is supported by deposits in the Arizona Public Schools Enhancement Fund, initially funded in part with an \$80 million funding obligation issued by the Credit Enhancement Eligibility Board and purchased by the state treasurer. Statutes limit the principal amount of bonds guaranteed to an ultimate leverage ratio of 3.5 to 1. To participate in the program, a school must meet the requirements to be an Achievement District School, which are detailed in A.R.S 15-2141(B), and complete an application as outlined in Title 7 of the Arizona Administrative Register. If a participating school does not expect to make a required principal or interest payment when due, and if the debt service reserve associated with that issue is insufficient, the Credit Enhancement Eligibility Board will be notified at least five days prior to that pending debt service due date. On being notified, the board must notify the state treasurer, who will forward sufficient funds within two business days.

Supporting the financial risk profile of the program are various policies and guidelines, the framework for which has been established by Arizona Revised Statutes that authorized the enhancement program. These include the following:

- Formal eligibility criteria that include financial planning, enrollment demand metrics, and academic outcomes;
- A statutory mechanism that addresses the payment of guaranteed bond debt service if there are payment delays or defaults by the underlying schools;
- A requirement that if the state treasurer needs to make a payment from the enhancement fund, the school causing this must repay the draw within 12 months; and
- Investments of the enhancement fund that are limited by state statute.

Ratings Detail (As Of March 9, 2021)

Arizona Pub Sch ICR		
Long Term Rating	AA-/Stable	Affirmed
Legacy Traditional Schs		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BB+/Stable	Affirmed
Arizona Industrial Development Authority, Arizona		
Academy of Mathematics and Science, Inc, Arizona		
Arizona Indl Dev Auth (Academy of Mathematics and Science, Inc)		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BB/Stable	Affirmed
Arizona Industrial Development Authority, Arizona		
BASIS Schools Inc., Arizona		
Arizona Industrial Development Authority (BASIS Schools Inc.)		

Ratings Detail (As Of March 9, 2021) (cont.)		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BB/Stable	Affirmed
Arizona Industrial Development Authority (BASIS Schools Inc.)		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BB/Stable	Affirmed
Maricopa Cnty Indl Dev Auth, Arizona		
GreatHearts Arizona, Arizona		
Maricopa Cnty Indl Dev Auth (GreatHearts Arizona) (Great Hearts Academies Projects)		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BBB-/Stable	Affirmed
Maricopa Cnty Indl Dev Auth, Arizona		
Highland Prep, Arizona		
Maricopa Cnty Indl Dev Auth (Highland Prep) ed rev bnds (Highland Prep) ser 2019 dtd 10/17/2019 due 01/01/2050		
Long Term Rating	AA-/Stable	Affirmed
Maricopa Cnty Indl Dev Auth, Arizona		
Legacy Traditional Schools, Arizona		
Maricopa Cnty Indl Dev Auth (Legacy Traditional Schs)		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BB+/Stable	Affirmed
Maricopa Cnty Indl Dev Auth, Arizona		
Paradise Ed Center, Arizona		
Maricopa Cnty Indl Dev Auth (Paradise Ed Center) ed rev bnds (Paradise Ed Center) ser 2019 due 07/01/2054		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	BB+/Stable	Affirmed
Phoenix Indl Dev Auth, Arizona		
Vista College Preparatory, Arizona		
Phoenix Indl Dev Auth (Vista College Preparatory) ed rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Phoenix Indl Dev Auth (Vista College Preparatory) taxable ed rev bnds		
Long Term Rating	AA-/Stable	Affirmed

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